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COMMERCE FOR ROBERT TELCHIN
TREASURY FOR D. PETERS AND T. RAND
NSC FOR SENIOR AFRICA DIRECTOR
STATE PASS TO USAID FOR L.DOBBINS AND E.LOKEN

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SUBJECT: ZIMBABWE'S EQUITY TRADERS WELCOME DOLLARIZATION,
RE-OPENING OF STOCK EXCHANGE

SUMMARY

¶1. (SBU) Zimbabwe's financial sector welcomed dollarization of the economy and the foreign currency income that asset managers, the Zimbabwe Stock Exchange (ZSE), and stock brokers can now earn. But they do not expect a sudden return to profitability, as trading only re-opened on the ZSE last week after a three month suspension. Asset managers are also concerned whether thereturns on new hard-currency denominated prescribed assets will be market determined. In addition, liquidity constraints arising from foreign currency shortages will likely dampen trading volume. Privatization of state assets using the ZSE could provide liquidity to the market in the short-term. In the meantime, more reforms are needed to attract foreign investment and support economic recovery. END SUMMARY.

Partial Dollarization Welcomed

¶2. (SBU) Although asset management firms welcomed partial dollarization introduced in the January 2009 Monetary Policy Statement (MPS), they also expressed some concerns. Zvomunoda Chizura, the Managing Director of Old Mutual Asset Management Company (OMAM) explained to economic specialist on February 10 that asset managers earned their income from commissions from managing clients' assets that include shares on the Zimbabwe Stock Exchange, properties and pension funds. The suspension of trading on the Zimbabwe Stock Exchange (ZSE) on November 20, 2008 had devastated asset managers' incomes as most asset management companies held large proportions of their clients' assets in the form of shares; deeply negative real interest rates made money market investments unattractive. Farai Manjokota, Head of ZB Asset Management Company, told economic specialist on February 18 that the Association of Asset Managers had written to the RBZ to protest the US$1,000/month licensing fee for trading in foreign exchange, stating that it would lead to the collapse of many asset managers. To the relief of the players, the RBZ suspended the fee on February 13.

¶3. (SBU) ZSE CEO Emmanuel Munyukwi told us that the ZSE was in deficit largely due to the suspension of share trading last year.

ZSE income comprised annual levies on registered companies and a proportion of trading income. Munyukwi foresaw the situation improving with the resumption of trading in U.S. dollars on February 19, 2009. Although the first day of trading witnessed a mere 3,000 shares in one company changing hands at 1 U.S. cent per share, by the third day activity had picked up substantially with the number of counters traded increasing to 13 and turnover rising to over US$37,000.

Costs in Foreign Currency

¶4. (SBU) Chizura and Manjokota agreed that asset managers still faced challenges despite the benefits from partial dollarization of the economy, since most of their costs (including labor) were denominated in foreign exchange whereas their income in Zimbabwe dollar terms had not grown sufficiently to cover the costs. Chizura told us that pension funds that had been operating in a net negative Qtold us that pension funds that had been operating in a net negative position, with contributions insufficient to cover payouts due to the hyperinflationary environment, welcomed the decision to allow them to trade in hard currencies. The benefits, however, would not be immediate. Chizura said that the sector could not meet pensioners' expectations to be paid out in foreign exchange as soon as contributions were paid in foreign exchange.

Prescribed Assets Still a Problem

¶5. (SBU) Chizura welcomed the reduction in the prescribed asset

ratio for insurance companies from 35 percent in Zimbabwe dollar terms to 5 percent for short-term and 7 percent for long-term policies and to 10 percent for pension funds in foreign currency. However, he said the industry lacked confidence that the instruments that the government will introduce to enable players to comply with these statutory requirements would pay positive real returns. Chizura also said that it was not clear from the monetary policy statement whether the rates applied to the stock of assets or to the increase in stocks of assets. If it applied to the stock, then Chizura believed no player could remain profitable given the low returns associated with most prescribed assets.

Capital Requirement Too High

¶6. (SBU) Neither Chizura nor Manjokota saw the need for minimum capital as high as the present US$2.5 million minimum requirement. Chizura told us that even though Old Mutual Asset Manager was backed by a wealthy parent company, in light of the low risk involved it was not prepared to tie up as much as US$2.5 million in capital.

Lack of Liquidity Constrains Trading

¶7. (SBU) Munyukwi told us that the main problem facing the ZSE was lack of U.S. dollar liquidity. Both Munyukwi and Chibaya said that the amount of U.S. dollars in circulation in Zimbabwe was very small relative to the country's needs. Munyukwi added that most companies were in desperate need of re-capitalization. He believed money would flow in once the economy had stabilized and foreign lines of credit were restored. In the short term, he proposed the privatization of state assets as the only way of quickly injecting liquidity into the market, particularly if the process is open to foreigners through the ZSE. Manjokota added that the restoration of fungibility status on counters that have a dual listing would boost investor confidence.

New Finance Minister Drops Levies And Charges

¶8. (SBU) Munyukwi told economic specialist that new Finance Minister Tendai Biti, with effect from February 19 and to the relief

of the equity market, had dropped onerous levies and charges introduced by RBZ Governor Gono in his January 2009 Monetary Policy Statement. Gono had introduced a 1.5 percent financial sector stability levy, payable to the RBZ, and directed that 3.5 percent of proceeds be paid by the seller of shares to the RBZ.

COMMENT

¶9. (SBU) Asset management firms, the ZSE, and stock brokers all agree that dollarization will restore viability to the financial sector. However, in the short-term, liquidity is a constraint. As donor funding is unlikely to fill the gap quickly, Munyukwi's suggestion of privatizing state assets using the ZSE merits further study. Finance Minister Biti's removal of some taxes introduced less than a month ago by RBZ Governor Gono on share trading will help lower transaction costs and boost activity on the ZSE. Biti's Qhelp lower transaction costs and boost activity on the ZSE. Biti's action also bodes well politically, as he re-asserts for the Finance Ministry authority usurped by Gono over recent years, but more reforms are needed to attract foreign investment and support economic recovery. END COMMENT.

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